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January 17, 2006

Patrick J. Mead, Director
Department of Public Works
825 East Third Street
San Bernardino, CA 92415-0835

**SUBJECT: MANAGEMENT LETTER – SAN BERNARDINO COUNTY FLOOD
CONTROL DISTRICT- FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the Flood Control District (the District) for the fiscal year ended June 30, 2005.

Auditor's Report

We have audited the accompanying balance sheet of the District as of June 30, 2005, and the related financial statements for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. As part of our audit, we made a study of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Nature of Internal Control

The management of the District is responsible for establishing and maintaining the system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded

against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of the District. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of management and the Board of Supervisors and should not be used for any other purpose.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Based on the results of our audit, we identified one current finding and two recurring findings. The recurring findings and recommendations are located under the heading "Status of Prior Recommendations". The current finding and recommendation is located under the heading "Current Finding & Recommendation".

STATUS OF PRIOR RECOMMENDATIONS

The recommendations contained in the prior audit report, dated January 20, 2005 relating to Findings 1 and 2 (January 2005) were adopted by the District. Our recommendations regarding the recurring prior findings are shown below.

Prior Finding 3 (January 2005): Disposition procedures for fixed assets need improvement.

Prior Recommendations

Follow the County of San Bernardino's Standard Practice 11-09SP (Surplus Personal Property) that became effective on 7/01/2000 to dispose of or transfer tangible assets. Review the equipment and vehicle listing you receive from the Auditor/Controller-Recorder (ACR) and determine if the District's tangible assets are being accounted for in the correct fund and department. Transfer any tangible assets that are incorrectly listed using Form 5900.

Current Status

County of San Bernardino Standard Practice 11-09SP governs the disposal or transfer of tangible assets. The following errors were discovered during the testing of Property Transfer Request Forms (16-5900-000):

1. The Department is not completing 5900 forms in a timely manner. Three assets that were disposed of did not have the 5900 form prepared until after Internal Audits informed them.
2. The Department is completing the Current Value Estimate portion of the 5900 Form. This value should be completed by the "Purchasing Agent" not the Department.

Further Recommendations

Forward all 5900 Forms to the Purchasing Department to determine the Current Value Estimate of the property. Review and reconcile the equipment and vehicle listing you receive from the Auditor/Controller-Recorder (ACR) in order to maintain an accurate account of the District's tangible assets.

Management's Response

We will remind all Division chiefs and the equipment manager to carefully read and follow the instructions contained in the Standard Practice 11-09SP. We will also let them know that the Current Value Estimate should only be filled in by the Purchasing Department.

Prior Finding 4 (January 2005): Fixed asset closing procedures were not being followed.

Prior Recommendations

Follow Fixed Asset Closing procedures in section VIII of the Fixed Assets Standard Practice Manual on pages 13-23. Require a senior District employee and/or Supervising Accountant to review and approve fixed asset documents submitted to the ACR. Maintain a detailed ledger for amounts reported as construction in progress.

Current Status

Currently, the District submits an itemized worksheet of all Construction in Progress (CIP) at fiscal year end and does not provide a Form 7973 to the ACR for the purchase or sale of land. It was noted that the construction in progress worksheet provided by the District contained the following errors for the period audited:

1. Expenses unrelated to asset construction were included as CIP
2. Maintenance or repairs or both were included as CIP

Any organizational unit involved in the purchase, construction, betterment, sale, demolition or receiving by gift of a fixed asset, must complete and submit to the ACR a Form 7973 (Notice of Acquisition, Change, Disposition and Completed Construction).

By not providing the ACR with the proper forms, the fixed assets and financial statements of the District's CIP and/or sale of land could be materially misstated.

Further Recommendations

Ensure that a Form 7973 is completed for all land purchases and sales and that these forms are forwarded to the ACR in a timely manner.

Management's Response

We will keep monitoring the fixed asset closing process in order to ensure the accuracy of CIP and the proper reporting of the land transactions using Form 7973.

CURRENT FINDINGS AND RECOMMENDATIONS

Finding 1: Capital assets were depreciated for more than their actual cost.

Generally Accepted Accounting Procedures (GAAP) requires that assets not be depreciated beyond their depreciable cost, and good business practices require the District to charge departments the correct rate for the use of equipment. The following errors were noted during the testing of equipment and vehicle depreciation charges:

1. Flood Control depreciated two vehicles (#6010 & #6022) beyond their depreciable cost.

By depreciating assets beyond their depreciable cost, Flood Control is overstating their expenditures and understating their fund balance. Flood Control is also overcharging departments for the use of Flood Control equipment and vehicles due to depreciation rates on fully depreciated equipment.

Recommendations

Implement procedures to periodically verify that depreciation rates are correctly adjusted for fully depreciated equipment. Determine why assets #6010 and #6022 were over depreciated after programming changes were made.

Management's Response

Our new cost accounting system (called Wincams) should automatically stop further depreciation once the equipment has reached the fully depreciated stage. We will monitor the process in order ensure proper accounting of depreciation costs. The two assets mentioned above continued to depreciate because the implemented programming change (in the prior accounting system) took effect only on the equipment that were not fully depreciated at the time of change. If an equipment had already reached the fully depreciated stage at the time of the change, then a manual intervention was necessary. As stated earlier, our new accounting system should prevent this type of error.

Patrick J. Mead, Director
Department of Public Works
January 17, 2006
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We would like to express our appreciation for the cooperation and assistance provided to the auditors during our field visits.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By

Mark Cousineau
Internal Audit Manager

Quarterly copies to:

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